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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2004

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from __________ to __________

Commission File Number **000-28275**

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**75-2837058**
(State of Incorporation)	(I.R.S. Employer I.D. No.)
500 North Central Expressway, Plano, Texas	**75074**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(972) 881-2900**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ☒

At May 6, 2004 there were 21,247,401 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

PFSWEB, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2004

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	March 31, 2004 (Unaudited)	December 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,488	$ 14,743
Restricted cash	890	1,091
Accounts receivable, net of allowance for doubtful accounts of $376 and $339 at March 31, 2004 and December 31, 2003, respectively	35,316	31,658
Inventories, net	38,365	44,589
Other receivables	3,985	3,091
Prepaid expenses and other current assets	2,135	2,417
Total current assets	95,179	97,589
PROPERTY AND EQUIPMENT, net	10,280	9,589
RESTRICTED CASH	830	900
OTHER ASSETS	330	281
Total assets	$106,619	$108,359
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 55,671	$ 57,085
Trade accounts payable	12,327	11,996
Accrued expenses	7,913	7,101
Total current liabilities	75,911	76,182
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	3,424	2,762
OTHER LIABILITIES	882	998
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 40,000,000 shares authorized; 21,276,110 and 21,247,941 shares issued at March 31, 2004 and December 31, 2003, respectively; and 21,189,810 and 21,161,641 outstanding at March 31, 2004 and December 31, 2003, respectively	21	21
Additional paid-in capital	56,189	56,156
Accumulated deficit	(31,070)	(29,303)
Accumulated other comprehensive income	1,347	1,628
Treasury stock at cost, 86,300 shares	(85)	(85)
Total shareholders' equity	26,402	28,417
Total liabilities and shareholders' equity	$106,619	$108,359

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

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PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	2004	2003
REVENUES:		
Product revenue, net	$68,570	$59,719
Gross service fee revenue	8,743	7,248
Less pass-through charges	1,781	640
Net service fee revenues	6,962	6,608
Total net revenues	75,532	66,327
COSTS OF REVENUES:		
Cost of product revenue	64,453	56,407
Cost of net service fee revenue	5,193	4,913
Total costs of revenues	69,646	61,320
Gross profit	5,886	5,007
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,023	6,112
Loss from operations	(1,137)	(1,105)
INTEREST EXPENSE, NET	428	608
Loss before income taxes	(1,565)	(1,713)
INCOME TAX EXPENSE	202	61
NET LOSS	$ (1,767)	$ (1,774)
NET LOSS PER SHARE:		
Basic and diluted	$ (0.08)	$ (0.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and diluted	21,186	18,416

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

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PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,767)	$(1,774)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,126	1,189
Provision for doubtful accounts	39	151
Provision for excess and obsolete inventory	354	13
Deferred income taxes	(49)	—
Changes in operating assets and liabilities:		
Accounts receivables	(3,927)	(2,030)
Inventories, net	5,442	7,224
Prepaid expenses, other receivables and other current assets	(673)	134
Accounts payable, accrued expenses and deferred income	1,362	(885)
Net cash provided by operating activities	1,907	4,022
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(956)	(267)
Decrease in restricted cash	83	—
Net cash used in investing activities	(873)	(267)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(216)	(272)
Decrease (increase) in restricted cash	185	(342)
Proceeds from issuance of common stock	33	28
Payments on debt, net	(1,274)	(2,821)
Net cash used in financing activities	(1,272)	(3,407)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(17)	(85)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(255)	263
CASH AND CASH EQUIVALENTS, beginning of period	14,743	8,595
CASH AND CASH EQUIVALENTS, end of period	$14,488	$ 8,858
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Fixed assets acquired under capital leases	$ 1,298	$ 64

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. OVERVIEW AND BASIS OF PRESENTATION

PFSweb Overview

PFSweb, Inc. and its subsidiaries are collectively referred to as the “Company,” while the term “PFSweb” refers to PFSweb, Inc. and its subsidiaries excluding Business Supplies Distributors Holdings, LLC and its subsidiaries.

PFSweb is an international provider of integrated business process outsourcing services to major brand name companies seeking to maximize their supply chain efficiencies and to extend their traditional and e-commerce initiatives in the United States, Canada, and Europe. PFSweb offers such services as professional consulting, technology collaboration, managed web hosting and internet application development, order management, web-enabled customer contact centers, customer relationship management, financial services including billing and collection services and working capital solutions, information management, option kitting and assembly services, and international fulfillment and distribution services.

Supplies Distributors Overview

In 2001, Business Supplies Distributors Holdings, LLC (“Holdings”) formed a wholly-owned subsidiary, Supplies Distributors, Inc. (“Supplies Distributors”). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries, Supplies Distributors of Canada, Inc. (“SDC”) and Supplies Distributors S.A. (“SDSA”), a Belgium Corporation. Supplies Distributors and its subsidiaries are master distributors of various products, primarily International Business Machines (“IBM”) products. Pursuant to a transaction management services agreement between PFSweb and Supplies Distributors, PFSweb provides to Supplies Distributors and its subsidiaries such services as managed web hosting and maintenance, procurement support, web-enabled customer contact center services, customer relationship management, financial services including billing and collection services, information management, and international distribution services. Additionally, IBM and Supplies Distributors and its subsidiaries have outsourced the product demand generation function for the IBM products distributed by Supplies Distributors and its subsidiaries. Supplies Distributors and its subsidiaries sell their products in the United States, Canada and Europe.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of March 31, 2004, and for the three months ended March 31, 2004 and 2003, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company’s financial position as of March 31, 2004, its results of operations for the three months ended March 31, 2004 and 2003 and its results of cash flows for the three months ended March 31, 2004 and 2003. Results of the Company’s operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data has been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net loss or shareholders’ equity.

2. *SIGNIFICANT ACCOUNTING POLICIES*

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation. Accounts and transactions between PFSweb and Holdings and its subsidiaries have been eliminated as of March 31, 2004 and December 31, 2003 and for the three months ended March 31, 2004 and 2003.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Subordinated Loan to Affiliate

PFSweb has loaned Supplies Distributors monies in the form of a Subordinated Demand Note ("Subordinated Note"). Under certain terms of its senior debt facilities, the outstanding balance of the Subordinated Note cannot be increased or decreased without prior approval of the Company's lenders. During the three months ended March 31, 2004, the Company's lenders agreed to reduce the required minimum Subordinated Note balance from $8.0 million to $7.0 million. As of March 31, 2004 and December 31, 2003, the outstanding balance of the Subordinated Note, which is eliminated upon the consolidation of Holdings' financial position, was $7.5 million and $8.0 million, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses, including allowances for the collectibility of accounts and other receivables and the recoverability of inventory. The recognition and allocation of certain operating expenses in these consolidated financial statements also required management estimates and assumptions. The Company's estimates and assumptions are continually evaluated based on available information and experience. Because the use of estimates is inherent in the financial reporting process, actual results could differ from estimates. If there is a significant unfavorable change to current conditions, it would likely result in a material adverse impact to the Company's business, operating results and financial condition.

Concentration of Business and Credit Risk

The Company's product revenue was primarily generated by sales of product purchased under master distributor agreements with one supplier. Sales to two customers accounted for approximately 13% and 10% of the Company's total product revenues for the three months ended March 31, 2004. Service fee revenue from two clients accounted for approximately 31% and 22% of net service fee revenue for the three months ended March 31, 2004. On a consolidated basis, two customers/clients accounted for approximately 15% and 10% of the Company's total revenues for the three months ended March 31, 2004. As of March 31, 2004, two customers/clients accounted for approximately 30% of accounts receivable. As of December 31, 2003, two customers/clients accounted for approximately 37% of accounts receivable.

In conjunction with Supplies Distributors' and its subsidiaries' financings, PFSweb has provided certain collaterized guarantees on behalf of Supplies Distributors and its subsidiaries. Supplies Distributors' and its subsidiaries' ability to obtain financing on similar terms would be significantly impacted without these guarantees. Additionally, since Supplies Distributors and its subsidiaries have limited personnel and physical resources, their ability to conduct business could be materially impacted by contract terminations by the party performing product demand generation for the IBM products.

The Company has multiple arrangements with IBM and is dependent upon the continuation of such arrangements. These arrangements, which are critical to the Company's ongoing operations, include Supplies Distributors' and its subsidiaries' master distributor agreements, Supplies Distributors' and its subsidiaries' working capital financing agreements, product sales to IBM business units, a general contractor relationship through PFSweb's largest client, and a term master lease agreement.

Cash and Cash Equivalents

Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Inventories

Inventories (merchandise, held for resale, all of which are finished goods) are stated at the lower of cost or market. Supplies Distributors and its subsidiaries assume responsibility for slow-moving inventory under certain master distributor agreements, subject to certain termination rights, but have the right to return product rendered obsolete by engineering changes, as defined. The Company reviews inventory for impairment on a periodic basis, but at a minimum, annually. Recoverability of the inventory on hand is measured by comparison of the carrying value of the inventory to the fair value of the inventory. The allowance for slow moving inventory was $1.7 million and $1.3 million at March 31, 2004 and December 31, 2003, respectively.

In the event PFSweb, Supplies Distributors and its subsidiaries and IBM terminate the master distributor agreements, the parties shall mutually agree on a plan of disposition of Supplies Distributors' and its subsidiaries' then existing inventory.

Inventories include merchandise in-transit that has not been received by the Company but that has been shipped and invoiced by Supplies Distributors' and its subsidiaries' vendors. The corresponding payable for inventories in-transit is included in debt in the accompanying consolidated financial statements.

Property and Equipment

The Company's property held under capital leases amounted to approximately $4.0 million and $3.1 million, net of accumulated amortization of approximately $4.8 million and $4.6 million, at March 31, 2004 and December 31, 2003, respectively.

Stock-Based Compensation

The Company accounts for stock options using the intrinsic-value method as outlined under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25") and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25*, issued in March 2000. Under this method, compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. The exercise prices of all options granted during the three months ended March 31, 2004 and 2003 were equal to the market price of the Company's common stock at the date of grant. As such, no compensation cost was recognized during those periods for stock options granted to employees. The following table shows the pro forma effect on the Company's net loss and loss per share as if compensation cost had been recognized for stock options based on their fair value at the date of the grant. The pro forma effect of stock options on the Company's net loss for those years may not be representative of the pro forma effect for future years due to the impact of vesting and potential future awards.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(In thousands, except per share amounts)	
Net loss as reported	$(1,767)	$(1,774)
Add: Stock-based non-employee compensation expense included in reported net loss	—	—
Deduct: Total stock-based employee and non-employee compensation expense determined under fair value based method	(71)	(144)
Pro forma net loss, applicable to common stock for basic and diluted computations	$(1,838)	$(1,918)
Loss per common share – basic and diluted		
As reported	$ (0.08)	$ (0.10)
Pro forma	$ (0.09)	$ (0.10)

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

During the three months ended March 31, 2004, the Company issued an aggregate of 708,500 options to purchase shares of common stock to officers and employees of PFSweb.

3. COMPREHENSIVE LOSS (in thousands)

	Three Months Ended March 31,	
	2004	**2003**
Net loss	$(1,767)	$(1,774)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(281)	288
Comprehensive loss	$(2,048)	$(1,486)

4. NET LOSS PER COMMON SHARE AND COMMON SHARE EQUIVALENT

Basic and diluted net loss per common share attributable to PFSweb, Inc. common stock were determined based on dividing the net loss available to common stockholders by the weighted-average number of common shares outstanding. During the three months ended March 31, 2004 and 2003, all outstanding options to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. As of March 31, 2004 and 2003 there were 5,051,554 and 4,724,835 options outstanding, respectively.

5. *DEBT AND CAPITAL LEASE OBLIGATIONS:*

Debt and capital lease obligations consist of the following (in thousands):

	March 31, 2004	December 31, 2003
Inventory and working capital financing agreements:		
United States	$23,836	$26,034
Europe	11,303	11,526
Loan and security agreements:		
Supplies Distributors	13,490	13,146
PFSweb	1,929	3,514
Factoring agreement, Europe	4,283	2,296
Term master lease agreement	4,010	3,080
Other	244	251
Total	59,095	59,847
Less current portion of long-term debt	55,671	57,085
Long-term debt, less current portion	$ 3,424	$ 2,762

Inventory and Working Capital Financing Agreement, United States

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of IBM products in the United States, providing financing for eligible IBM inventory and for certain other receivables up to $27.5 million as of March 31, 2004 and December 31, 2003. The asset based credit facility provides for the reduction of the maximum credit limit from $27.5 million to $22.5 million on July 1, 2004 unless IBM Credit LLC sells a participation interest in the facility, in which event the maximum credit limit will be reduced to $22.5 million plus the amount of any participation interest, but in no event more than $27.5 million through its expiration on March 29, 2005. As of March 31, 2004, Supplies Distributors had $1.2 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Holdings and Supplies Distributors to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $7.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 1%. The facility accrues a quarterly commitment fee of 0.375% on the unused portion of the commitment, and a monthly service fee.

Inventory and Working Capital Financing Agreement, Europe

SDSA and Supplies Distributors' wholly-owned subsidiary Business Supplies Distributors Europe B.V. ("BSD Europe") have a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance their distribution of IBM products in Europe. The asset based credit facility with IBM Belgium provides up to 12.5 million Euros (approximately $15.2 million) in financing for purchasing IBM inventory and for certain other receivables through March 29, 2005. As of March 31, 2004, SDSA and BSD Europe had 0.6 million euros ($0.7 million) of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of SDSA and BSD Europe, as well as collateralized guaranties of Holdings, Supplies Distributors and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $7.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at Euribor plus 2.5%. SDSA and BSD Europe pay a monthly service fee on the commitment.

Loan and Security Agreement - Supplies Distributors

Supplies Distributors has a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to $25 million of eligible accounts receivable in the United States and Canada. As of March 31, 2004, Supplies Distributors had $0.6 million of available credit under this agreement. The Congress facility expires on the earlier of March 29, 2005 or the date on which the parties to the IBM master distributor agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. This agreement contains cross default provisions, various restrictions upon the ability of Holdings and Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than $6.5 million and restricted cash of less than $5.0 million, and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors and SDC entered into blocked account agreements with their banks and Congress whereby a security interest was granted to Congress for all customer remittances received in specified bank accounts. At March 31, 2004 and December 31, 2003, these bank accounts held $0.6 million and $0.8 million, respectively, which was restricted for payment to Congress.

On April 20, 2004, the Company amended the facility with Congress. The amendment lowers the interest rate charged on borrowings, as defined, reduces certain fees, and extends the expiration date to the earlier of March 29, 2007 or the date on which the parties to the IBM master distribution agreement no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Loan and Security Agreement – PFSweb

Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc. (both wholly-owned subsidiaries of PFSweb and collectively the "Borrowers") have a Loan and Security Agreement with Comerica Bank ("Comerica Agreement"). The Comerica Agreement provides for up to $5.0 million of eligible accounts receivable financing in the United States and Canada ("Working Capital Advances") through March 28, 2005 and up to $2.5 million of eligible equipment purchases ("Equipment Advances") through September 10, 2006. Outstanding Working Capital Advances, $0.5 million as of March 31, 2004, accrue interest at prime rate plus 1%. Outstanding Equipment Advances, $1.4 million as of March 31, 2004, accrue interest at prime rate plus 1.5%. As of March 31, 2004, the Borrowers had $2.6 million of available credit under the Working Capital Advance portion of this facility. In April 2004, the Company repaid the $0.5 million of Working Capital Advances outstanding as of March 31, 2004. The agreement contains cross default provisions, various restrictions upon the Borrowers' ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth, as defined, of $19.0 million and a minimum liquidity ratio, as defined. The agreement restricts the amount of the Subordinated Note to a maximum of $8.0 million. The agreement is secured by all of the assets of the Borrowers, as well as a guarantee of PFSweb, Inc. The amendment requires the Borrowers to maintain a minimum cash balance of $1.25 million at Comerica.

Factoring Agreement

SDSA has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million euros (approximately $9.1 million) of eligible accounts receivables through March 29, 2005. As of March 31, 2004, SDSA had approximately 1.3 million euros ($1.6 million) of available credit under this agreement. Borrowings under this agreement can be either cash advances or straight loans, as defined. Cash advances accrue interest at the fixed interest rate of Belgium banks plus .75%, or on an adjusted basis as defined, but not lower than 6%; and straight loans accrue interest at Euribor plus 1.3%. This agreement contains various restrictions upon the ability of SDSA to, among other things, merge, consolidate and incur indebtedness, as well as financial covenants, such as minimum net worth. This agreement is secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

Debt Covenants

To the extent the Company fails to comply with its covenants, including the monthly financial covenant requirements and required level of consolidated shareholders' equity ($19.0 million), and the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. At March 31, 2004, the Company and Supplies Distributors were in compliance with all debt covenants.

PFSweb has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Master Lease Agreements

The Company has a Term Lease Master Agreement with IBM Credit Corporation ("Master Lease Agreement") that provides for leasing or financing transactions of equipment and other assets, which generally have terms of 3 to 5 years. The outstanding leasing transactions ($1.3 million and $0.1 million as of March 31, 2004 and December 31, 2003, respectively) are secured by the related equipment and a letter of credit. The outstanding financing transactions ($0.7 million and $0.8 million as of March 31, 2004 and December 31, 2003, respectively) are secured by a letter of credit. In October 2003, the Company refinanced certain amounts outstanding under the Master Lease Agreement with an Equipment Advance

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

under the Comerica Agreement, which reduced the letter of credit security requirement.

The Company has a master agreement with a leasing company that provided for leasing transactions of certain equipment. The amounts outstanding under this agreement were $1.5 million as of both March 31, 2004 and December 31, 2003, and are secured by the related equipment.

The Company enters into other leasing and financing agreements as needed to finance the purchasing or leasing of certain equipment or other assets. Borrowings under these agreements are generally secured by the related equipment.

6. SEGMENT INFORMATION

The Company is organized into two operating segments. PFSweb is an international provider of integrated business process outsourcing solutions and operates as a service fee business. Holdings and its subsidiaries are master distributors of primarily IBM products, and recognize revenues and costs when product is shipped.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Revenues (in thousands):		
PFSweb	$ 9,224	$ 8,528
Holdings	68,570	59,719
Eliminations	(2,262)	(1,920)
	$75,532	$66,327
Income (loss) from operations (in thousands):		
PFSweb	$ (2,821)	$ (2,200)
Holdings	1,677	1,088
Eliminations	7	7
	$ (1,137)	$ (1,105)
Depreciation and amortization (in thousands):		
PFSweb	$ 1,119	$ 1,182
Holdings	14	14
Eliminations	(7)	(7)
	$ 1,126	$ 1,189
Capital expenditures (in thousands):		
PFSweb	$ 956	$ 267
Holdings	—	—
Eliminations	—	—
	$ 956	$ 267

	March 31, 2004	December 31, 2003
Assets (in thousands):		
PFSweb	$ 43,951	$ 43,629
Holdings	76,048	77,878
Eliminations	(13,380)	(13,148)
	$106,619	$108,359

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this Form 10-Q.

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2003, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our reliance on the fees generated by the transaction volume or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with IBM;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- trends in the market for our services;
- trends in e-commerce;
- whether we can continue and manage growth;
- changes in the trend toward outsourcing;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- the unknown effects of possible system failures and rapid changes in technology;
- trends in government regulation both foreign and domestic;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency on key personnel;
- our ability to raise additional capital or obtain additional financing; and
- our ability or the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants.

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. In addition, some forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expected or forecasted in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future. There may be additional risks that we do not currently view as material or that are not presently known.

Overview

We are an international provider of integrated business process outsourcing solutions to major brand name companies seeking to maximize their supply chain efficiencies and to extend their traditional business and e-commerce initiatives. We derive our revenues from a broad range of services, including professional consulting, technology collaboration, order management, managed web hosting and web development, customer relationship management, financial services including billing and collection services and working capital solutions, options kitting and assembly services, information management and international fulfillment and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete infrastructure needs to a single source and to focus on their core competencies. Our distribution services are conducted at our warehouses and include real-time inventory management and customized picking, packing and shipping of our clients' customer orders. We currently provide infrastructure and distribution solutions to clients that operate in a range of vertical markets, including technology manufacturing, computer products, printers, cosmetics, fragile goods, high security collectibles, pharmaceuticals, contemporary home furnishings, apparel, telecommunications and consumer electronics, among others.

We provide these services, and earn our revenue, through two separate business segments, which have operationally similar business models. The first business segment is a service fee revenue model. In this segment, we do not own the underlying inventory or the resulting accounts receivable, but provide management services for these client-owned assets. We typically charge our service fee revenue on a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors.

Many of our service fee contracts involve third-party vendors who provide additional services such as package delivery. The costs we are charged by these third-party vendors for these services are often passed on to our clients (and, in many cases, our clients' customers). Our billings for reimbursements of these and other 'out-of-pocket' expenses, such as travel, shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs for pass-through expenditures are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

Our second business segment is a product revenue model. In this segment, we are a master distributor of product for IBM and certain other clients. In this capacity, we purchase, and thus own, inventory. As a result, upon the sale of inventory, we own the accounts receivable. This business segment requires significant working capital requirements, for which we have senior financing facilities to provide for up to approximately $77 million of available financing. Our services include purchasing and reselling client product inventory within this product revenue segment. In these arrangements, our product revenue is recognized at the time product is shipped. Product revenue includes freight costs billed to customers and is reduced for pass through customer marketing programs.

Growth is a key element to us achieving our future goals, including reaching sustainable profitability. Our growth is driven by two main elements: new client relationships and organic growth from existing clients. On an overall basis, we have experienced an increase in service fee revenues from existing clients and an increase in product revenues in recent periods. However, due to uncertainty in the United States economic climate, lead times to close new business continue to be longer than we would ultimately desire and our closure rate is difficult to predict.

Our expenses comprise primarily three categories: 1) cost of service fee revenue, 2) cost of product revenue and 3) selling, general and administrative ("SG&A") expenses.

Cost of service fee revenue – consists primarily of compensation and related expenses for our web-enabled customer contact center services, international fulfillment and distribution services and professional consulting services, and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses.

Cost of product revenue - cost of product revenue consists of the purchase price of product sold and freight costs, which are reduced by certain reimbursable expenses. These reimbursable expenses include pass through customer marketing programs, direct costs incurred in passing on any price decreases offered by IBM to us or our customers to cover price protection and certain special bids, the cost of products provided to replace defective product returned by customers and certain other expenses as defined under the master distributor agreements.

SG&A expenses - consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, certain direct contract costs related to our IBM and other master distributor agreements are reflected as selling and administrative expenses.

Monitoring and controlling our available cash balances continues to be a primary focus. Our cash and liquidity positions are important components of our financing of both current operations and our targeted growth. During 2003 we added to our available cash and liquidity positions through two primary transactions. First, we entered into a working capital financing agreement with a bank that currently provides financing for up to $5 million of eligible accounts receivable and financing for up to $2.5 million of eligible capital expenditures. Secondly, we completed a private placement of approximately 1.6 million shares of our common stock to certain investors that provided net proceeds of approximately $3.2 million.

Results of Operations

The following table sets forth certain historical financial information from our unaudited interim condensed consolidated statements of operations expressed as a percent of revenue.

	Three Months Ended March 31,	
	2004	2003
	(Unaudited)	(Unaudited)
Product revenue	90.8%	90.0%
Gross service fee revenue	11.6	10.9
Pass-through charges	(2.4)	(0.9)
Net service fee revenue	9.2	10.0
Total net revenues	100.0	100.0
Cost of product revenue (as % of product revenue)	94.0	94.5
Cost of service fee revenue (as % of net service fee revenue)	74.6	74.3
Total costs of revenues	92.2	92.5
Gross profit	7.8	7.5
Selling, general and administrative expenses	9.3	9.2
Loss from operations	(1.5)	(1.7)
Interest expense, net	0.5	0.9
Loss before income taxes	(2.0)	(2.6)
Income tax expense	0.3	0.1
Net loss	(2.3)%	(2.7)%

Results of Operations for the Interim Periods Ended March 31, 2004 and 2003

Product Revenue. Product revenue was $68.6 million for the three months ended March 31, 2004, as compared to $59.7 million for the three months ended March 31, 2003, an increase of $8.9 million, or 14.8%. The increase in product revenue resulted primarily from the favorable impact of exchange rates on our European and Canadian operations and increased sales volumes of many existing products. In addition, product revenue was favorably impacted by the addition of certain new products and increased sales prices for certain products.

Net Service Fee Revenue. Net service fee revenue was $7.0 million for the three months ended March 31, 2004 as compared to $6.6 million for the three months ended March 31, 2003, an increase of $0.4 million or 5.4%. The change in net service fee revenue is shown below ($ millions):

Three months ended March 31, 2003	$ 6.6
New service contract relationships	0.3
Increase in existing client service fees from organic growth and certain incremental projects	0.5
Terminated clients not included in 2004 revenue	(0.4)
Three months ended March 31, 2004	$ 7.0

Net service fee revenue for the three months ended March 31, 2004 included approximately $0.6 million of fees earned from clients contracts terminated during 2004.

Cost of Product Revenue. Cost of product revenue was $64.5 million for the three months ended March 31, 2004, as compared to $56.4 million for the three months ended March 31, 2003, an increase of $8.1 million or 14.3%. Cost of product revenue as a percent of product revenue was 94.0% during the three months ended March 31, 2004 and 94.5% during the three months ended March 31, 2003. Cost of product revenue increased from the prior period from the impact of exchange rates on our European and Canadian operations, increased volumes of many existing products and the addition of certain new product and additional reserves for inventory impairment for the three months ended March 31, 2004. The resulting gross profit margin was 6.0% for the three months ended March 31, 2004 and 5.5% for the three months ended March 31, 2003.

Cost of Net Service Fee Revenue. Cost of net service fee revenue was $5.2 million for the three months ended March 31, 2004, as compared to $4.9 million during the three months ended March 31, 2003, an increase of $0.3 million or 5.7%. The resulting service fee gross profit was $1.8 million, or 25.4% of net service fee revenue, during the three months ended March 31, 2004 as compared to $1.7 million, or 25.7% of net service fee revenue for the three months ended March 31, 2003. As we add new service fee revenue in the future, we currently intend to target the underlying contracts to earn an average gross profit percentage of 30-40%.

Selling, General and Administrative Expenses. SG&A expenses were $7.0 million for the three months ended March 31, 2004, or 9.3% of total net revenues, as compared to $6.1 million, or 9.2% of total net revenues, for the three months ended March 31, 2003. SG&A expenses increased from the prior year primarily due to additional expenses incurred in preparation of complying with the Sarbanes-Oxley Act and incremental sales and marketing expenses.

Interest Expense, net. Interest expense was $0.4 million for the three months ended March 31, 2004 as compared to $0.6 million for the three months ended March 31, 2003. The decrease in interest expense is primarily due to lower average loan balances as a result of reduced inventory levels.

Income Taxes. For the three months ended March 31, 2004 and 2003, we recorded a tax provision of $0.2 million and $0.1 million, respectively, primarily associated with our subsidiary Supplies Distributors' Canadian and European operations. We did not record an income tax benefit associated with our consolidated net loss in our U.S. operations. A valuation allowance has been provided for our net deferred tax assets, which are primarily related to our net operating loss carryforwards. We did not record an income tax benefit for our European pre-tax losses in the current or prior period. Due to the consolidation of Supplies Distributors and its subsidiaries, in the future we anticipate that we will continue to record an income tax provision associated with Supplies Distributors' Canadian and European results of operations.

Liquidity And Capital Resources

Net cash provided by operating activities was $1.9 million for the three months ended March 31, 2004, and primarily resulted from a $5.4 million decrease in inventory and a $1.4 million increase in accounts payable and accrued expenses, partially offset by cash used to fund operating losses and increases in accounts receivable of $3.9 million and prepaid expenses, other receivables and other current assets of $0.7 million. Net cash provided by operating activities was $4.0 million for the three months ended March 31, 2003, and primarily resulted from a $7.2 million decrease in inventory, partially offset by cash used to fund operating losses and an increase in accounts receivable of $2.0 million and decrease in accounts payable and accrued expenses of $0.9 million.

Net cash used in investing activities for the three months ended March 31, 2004 totaled $0.9 million, primarily representing capital expenditures. Net cash used in investing activities totaled $0.3 million for the three months ended March 31, 2003, representing capital expenditures. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $2 to $4 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. A portion of these expenditures may be financed through operating or capital leases. We may elect to modify or defer a portion of such anticipated investments in the event that we do not achieve the revenue necessary to support such investments.

Net cash used in financing activities was approximately $1.3 million for the three months ended March 31, 2004, primarily representing $0.2 million of payments on our capital lease obligations and $1.3 million of payments on debt. Net cash used in financing activities was approximately $3.4 million for the three months ended March 31, 2003, primarily representing $0.3 million of payments on our capital lease obligations and $2.8 million of payments on debt.

During the three months ended March 31, 2004, our working capital decreased to $19.3 million from $21.4 million at December 31, 2003 primarily as a result of funding operating losses and capital expenditures. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including utilizing capital or operating leases, borrowing under our own credit facility, or transferring a portion of our subordinated loan balance due from Supplies Distributors, to third-parties. In conjunction with certain of these alternatives, we may be required to provide certain letters of credit to secure these arrangements. No assurances can be given that we will be successful in obtaining any additional financing or the terms thereof. We currently believe that our cash position, financing available under our credit facilities and funds generated from operations (including our anticipated revenue growth and/or cost reductions to offset lower than anticipated revenue growth) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our lease obligations, and additional subordinated loans to our subsidiary Supplies Distributors, Inc. (“Supplies Distributors”), if necessary, for at least the next twelve months.

Supplies Distributors has a short-term credit facility with IBM Credit LLC (“IBM Credit”) and its subsidiaries Supplies Distributors S.A. (“SDSA”) and Business Supplies Distributors Europe B.V., European corporations, have a short-term credit facility with IBM Belgium Financial Services S.A. (“IBM Belgium”) to finance their distribution of IBM products. We have provided a collateralized guaranty to secure the repayment of these credit facilities. As of March 31, 2004, the asset-based credit facilities provided financing for up to $27.5 million and up to 12.5 million Euros (approximately $15.2 million) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2005. The agreement with IBM Credit provides for the reduction of the maximum credit limit from $27.5 million to $22.5 million on July 1, 2004 unless IBM Credit LLC sells a participation interest in the facility, in which event the maximum credit limit will be reduced to $22.5 million plus the amount of any participation interest, but in no event more than $27.5 million through its expiration on March 29, 2005.

Supplies Distributors also has a loan and security agreement with Congress Financial Corporation (Southwest) (“Congress”) to provide financing for up to $25 million of eligible accounts receivables in the United States and Canada. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement.

SDSA has a factoring agreement with Fortis Commercial Finance N.V. (“Fortis”) to provide factoring for up to 7.5 million Euros (approximately $9.1 million) of eligible accounts receivables through March 29, 2005. Borrowings under this agreement can be either cash advances or straight loans, as defined.

These credit facilities contain cross default provisions, various restrictions upon the ability of our subsidiaries Business Supplies Distributors Holdings, LLC (Holdings”), Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $7.0 million, maintain restricted cash of less than $5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure and a minimum shareholders' equity of at least $19.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or SDSA under these facilities if Supplies Distributors or SDSA is unable to do so. We have also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc., (both wholly-owned subsidiaries of PFSweb and collectively the "Borrowers") have a Loan and Security Agreement (the "Agreement") with Comerica Bank ("Comerica"). The Agreement provides for up to $5.0 million of eligible accounts receivable financing in the U.S. and Canada through March 28, 2005, and up to $2.5 million of eligible equipment purchases through September 10, 2006. We entered this Agreement to supplement our existing cash position, and provide funding for our future operations, including our targeted growth. The Agreement contains cross default provisions, various restrictions upon the Borrowers' ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth, as defined, and a minimum liquidity ratio, as defined. The Agreement also limits our ability to increase the subordinated loan to Supplies Distributors without the lender's approval. The Agreement is secured by all of the assets of the Borrowers, as well as a guarantee of PFSweb.

The following is a schedule of our total contractual cash and other obligations, which is comprised of operating leases, debt and capital leases, including interest (in millions):

	Payments Due By Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
Debt	$55,786	$54,608	$ 1,178	$ —	$ —
Capital lease obligations	3,798	1,306	1,996	496	—
Operating leases	25,589	6,648	11,760	7,181	—
Total	$85,173	$62,562	$14,934	$7,677	$ —

In support of certain debt instruments and leases, as of March 31, 2004, we had $1.1 million of cash restricted as collateral for a letter of credit. The letter of credit automatically decreases at certain dates through its expiration in March 2007. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain Supplies Distributors' credit facilities. Many of the debt facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other agreements. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders' equity, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. Any requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of March 31, 2004, we were in compliance with all debt covenants and we believe that we will maintain such compliance throughout calendar year 2004. We do not have any other material financial commitments.

We currently believe that we are still operating with and incurring costs applicable to excess physical capacity in our North American and European operations. We believe that based on our current cost structure, as we add revenue, we will be able to cover our reduced infrastructure costs and reach profitability. We currently estimate that the net service fee revenue needed to leverage our existing infrastructure and cost structure and reach profitability is approximately between $12 million to $13 million per quarter. No assurance can be given that we can achieve such operating levels, or that, if achieved, we will be profitable in any particular fiscal period. We will reevaluate the carrying value of certain of the excess long-lived warehouse operation and information technology infrastructure assets for impairment in 2004, in conjunction with our future operating plans, and determine if additional asset impairment costs should be recognized.

In the future, we may attempt to acquire other businesses or seek an equity or strategic partner to generate capital or expand our services or capabilities in connection with our efforts to grow our business. Acquisitions involve certain risks and uncertainties and may require additional financing. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire or an equity or strategic partner, whether we or they will be able to obtain financing to complete a transaction, or whether we or they will be successful in operating the acquired business.

Seasonality

The seasonality of our business is dependent upon the seasonality of our clients' business and their sale of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix, our service fee business activity will be at its lowest in the quarter ended March 31 and at its highest in the quarter ended June 30. We expect our Supplies Distributors business to be seasonally strong in the December quarter of each year.

We believe that results of operations for a quarterly period may not be indicative of the results for any other quarter or for the full year.

Inflation

Management believes that inflation has not had a material effect on our operations.

Critical Accounting Policies

A description of critical accounting policies is included in Note 2 to the accompanying unaudited interim condensed consolidated financial statements. For other significant accounting policies, see Note 2 to the consolidated financial statements in our December 31, 2003 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

We are exposed to various market risks including interest rates on its financial instruments and foreign exchange rates.

Interest Rate Risk

Our interest rate risk is limited to our outstanding balances on our inventory and working capital financing agreements, loan and security agreements and factoring agreement for the financing of inventory, accounts receivable and certain other receivables, which amounted to $55.1 million at March 31, 2004. A 100 basis point movement in interest rates would result in approximately $0.2 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at March 31, 2004.

Foreign Exchange Risk

Currently, our foreign currency exchange rate risk is primarily limited to the Canadian Dollar and the Euro. In the future, our foreign currency exchange risk may also include other currencies applicable to certain of our international operations. We may, from time to time, employ derivative financial instruments to manage our exposure to fluctuations in foreign currency rates. To hedge our net investment and intercompany payable or receivable balances in foreign operations, we may enter into forward currency exchange contracts. We do not hold or issue derivative financial instruments for trading purposes or for speculative purposes.

ITEM 4. Controls and Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial and Accounting Officer, within 90 days prior to the filing date of this report. Based upon the evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1**	Amendment to Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., and IBM Credit LLC
10.2**	Amendment 4 to Amended and Restated Platinum Plan Agreement (with Invoice Discounting) by and among Supplies Distributors, S.A., Business Supplies Distributors B.V., PFSweb B.V., and IBM Belgium Financial Services S.A.
10.3**	Third Amended and Restated Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., Supplies Distributors, Inc. and IBM Credit Corporation
10.4**	First Amendment to Loan and Security Agreement by and between Congress Financial Corporation (Southwest), as Lender and Supplies Distributors, Inc., as Borrower.
10.5**	Form of Modification to Executive Severance Agreement.
31.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
31.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657).

** Filed herewith

b) Reports on Form 8-K:

Form 8-K filed on February 23, 2004 reporting Item 12, Results of Operations and Financial Condition, that on February 23, 2004, PFSweb, Inc. issued a press release announcing its financial results for the quarter and fiscal year ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 17, 2004

PFSweb, Inc.

By: /s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer,
Chief Accounting Officer,
Executive Vice President

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INDEX TO EXHIBITS

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** Filed herewith

EXHIBIT 10.1

AMENDMENT NO. 4
TO
AGREEMENT FOR INVENTORY FINANCING

This Amendment No. 4 ("Amendment") to the Agreement for Inventory Financing is made as of March 29, 2004 by and among IBM CREDIT LLC, a Delaware limited liability company, formerly IBM Credit Corporation ("IBM Credit"), BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC, a limited liability company duly organized under the laws of the state of Delaware ("Holdings"), SUPPLIES DISTRIBUTORS, INC. (formerly known as BSD Acquisition Corp.), a corporation duly organized under the laws of the state of Delaware ("Borrower"), PRIORITY FULFILLMENT SERVICES, INC., a corporation duly organized under the laws of the state of Delaware ("PFS") and PFSWEB, INC., a corporation duly organized under the laws of the state of Delaware ("PFSweb") (Borrower, Holdings, PFS, PFSweb, and any other entity that executes this Agreement or any Other Document, including without limitation all Guarantors, are each individually referred to as a "Loan Party" and collectively referred to as "Loan Parties").

RECITALS:

A. Each Loan Party and IBM Credit have entered into that certain Agreement for Inventory Financing dated as of March 29, 2002 (as amended, supplemented or otherwise modified from time to time, the "Agreement"); and

D. The parties have agreed to modify the Agreement as more specifically set forth below, upon and subject to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower, the other Loan Parties and IBM Credit hereby agree as follows:

SECTION 1. DEFINITIONS. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement.

SECTION 2. AMENDMENT.

Subject to the satisfaction of the conditions precedents set forth in Section 3 hereof, the Agreement is hereby amended as follows:

A. Section 1 of the Agreement is hereby amended by inserting the following definitions in the appropriate alphabetical order:

" `Credit Reduction Date': shall mean the date that is the earlier of (a) July 1, 2004 and (b) the date IBM Credit delivers a Participation Notice."

" `Participation': sale by IBM Credit to another financial institution of an undivided interest, of certain Obligations owed by Borrower to IBM Credit pursuant to a Participation Agreement."

" "Participation Agreement': an agreement in form and substance satisfactory to IBM Credit whereby IBM Credit sells a Participation to another financial institution."

" `Participation Notice': a written notice sent by IBM Credit to Borrower that an undivided interest of certain obligations owed by Borrower to IBM Credit has been sold by IBM Credit to a financial institution pursuant to a Participation Agreement."

B. Section 1 of the Agreement is hereby amended by amending the definition of "Amended and Restated Notes Payable Subordination Agreement" to read in its entirety as follows:

" `Amended and Restated Notes Payable Subordination Agreement': the Third Amended and Restated Notes Payable Subordination Agreement dated March 29, 2004 executed by PFS in favor of IBM Credit."

C. Section 1 of the Agreement is hereby amended by amending the definition of "Termination Date" to read in its entirety as follows:

" `Termination Date': shall mean March 29, 2005 or such other date as IBM Credit and the Borrower may agree to from time to time in writing."

D. Section 1 of the Agreement is hereby amended by amending the definition of "Shortfall Amount" to read in its entirety as follows:

" `Shortfall Amount`: as defined in Section 2.6."

E. Section 2.1 of the Agreement is hereby amended by inserting the following sentence at the end of this section:

"Notwithstanding the foregoing, Borrower agrees that if the Credit Line has been increased due to a Participation, and thereafter the amount of any Participation is reduced or any Participation Agreement expires or is terminated for any reason, including, without limitation, through or as a result of any actions or failure on the part of IBM Credit, including, without limitation, any breach of IBM Credit's legal or contractual obligations, the Credit Line shall be reduced, upon forty-five (45) days written notice by IBM Credit to Borrower, by an amount equal to the amount that is no longer subject to a Participation Agreement as determined by IBM Credit. Nothing herein shall impose any obligation on IBM Credit to sell participations in any Obligations hereunder or to enter into any Participation Agreement and IBM Credit shall have no liability for its failure to do so."

F. Section 8.6 of the Agreement is hereby amended by amending this Section to read in its entirety as follows:

"8.6. RESTRICTED PAYMENTS. Borrower will not, directly or indirectly make any of the following payments ("Restricted Payments") without prior written consent from IBM Credit, which shall not be unreasonably withheld: (i) declare or pay any dividend (other than dividends payable solely in common stock of Borrower and cash dividends not to exceed Eight Hundred Thousand Dollars ($800,000) to be paid in fiscal year 2004 for which consent is hereby given) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Borrower or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations or payments of the revolving loans made by Congress made in the ordinary course administration thereof pursuant to the Congress Credit Agreement)), except as permitted by the Amended and Restated Notes Payable Subordination Agreement."

G. Attachment A to the Agreement is hereby amended by deleting such Attachment A in its entirety and substituting, in lieu thereof, the Attachment A attached hereto. Such new Attachment A shall be effective as of the date specified in the new Attachment A. The changes contained in the new Attachment A include, without limitation, the following:

Section II (A) of Attachment A is hereby amended by amending the Credit Line to read in its entirety as follows:

(A) Credit Line: (i) Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000) for the period from the date hereof until the Credit Reduction Date and (ii) on and after the Credit Reduction Date, the Credit Line shall be Twenty Two Million Five Hundred Thousand Dollars ($22,500,000). Notwithstanding the foregoing if on or after the Credit Reduction Date, IBM Credit sells a Participation to another financial institution pursuant to a Participation Agreement and sends a Participation Notice (including, without limitation, any Participation Notice sent on the Credit Reduction Date) to Borrower, then the Credit Line will be increased (effective as of the date set forth in the Participation Notice) by the amount set forth in Participation Notice (so long as the Participation Agreement remains in full force and effect) but in no event shall the Credit Line exceed Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000). In the event that the amount of any Participation is reduced or any Participation Agreement expires or is terminated for any reason, the Credit Line shall be reduced, upon forty-five (45) days written notice to Borrower, by an amount equal to the amount that is no longer subject to a Participation Agreement as determined by IBM Credit pursuant to Section 2.1 of the Agreement

SECTION 3. CONDITIONS OF EFFECTIVENESS OF AMENDMENT. This Amendment shall become effective upon the receipt by IBM Credit of (i) this Amendment shall have been authorized, executed and delivered by each of the parties hereto and IBM Credit shall have received a copy of a fully executed Amendment, (ii) the Third Amended and Restated Notes Payable Subordination Agreement executed by PFS, and (iii) an amendment to the Subordinated Demand Note dated March 29, 2002 issued in favor of IBM Credit and Congress Financial Corporation (Southwest) to change the amount of the Subordinated Demand Note to Seven Million Dollars ($7,000,000). .

SECTION 4. REPRESENTATIONS AND WARRANTIES. Each Loan Party makes to IBM Credit the following representations and warranties all of which are material and are made to induce IBM Credit to enter into this Amendment.

SECTION 4.1 ACCURACY AND COMPLETENESS OF WARRANTIES AND REPRESENTATIONS. All representations made by the Loan Party in the Agreement were true and accurate and complete in every respect as of the date made, and, as amended by this Amendment, all representations made by the Loan Party in the Agreement are true, accurate and complete in every material respect as of the date hereof, and do not fail to disclose any material fact necessary to make representations not misleading.

SECTION 4.2 VIOLATION OF OTHER AGREEMENTS AND CONSENT. The execution and delivery of this Amendment and the performance and observance of the covenants to be performed and observed hereunder (a) do not violate or cause any Loan Party not to be in compliance with the terms of any agreement to which such Loan Party is a party, and (b) require the consent of any Person.

SECTION 4.3 LITIGATION. Except as has been disclosed by the Loan Party to IBM Credit in writing, there is no litigation, proceeding, investigation or labor dispute pending or threatened against any Loan Party, which, if adversely determined, would materially adversely affect the Loan Party's ability to perform such Loan Party's obligations under the Agreement and the other documents, instruments and agreements executed in connection therewith or pursuant hereto.

SECTION 4.4 ENFORCEABILITY OF AMENDMENT. This Amendment has been duly authorized, executed and delivered by each Loan Party and is enforceable against each Loan Party in accordance with its terms.

SECTION 5. RATIFICATION OF AGREEMENT. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Each Loan Party hereby ratifies, confirms and agrees that the Agreement, as amended hereby, represents a valid and enforceable obligation of such Loan Party, and is not subject to any claims, offsets or defenses.

SECTION 6. RATIFICATION OF GUARANTY AND NOTES PAYABLE SUBORDINATION AGREEMENT. Each of Holdings, PFSweb and PFS hereby ratify and confirm their respective guaranties in favor of IBM Credit and agree that such guaranties remain in full force and effect and that the term "Liabilities", as used therein include, without limitation the indebtedness liabilities and obligations of the Borrower under the Agreement as amended hereby.

SECTION 7. GOVERNING LAW. This Amendment shall be governed by and interpreted in accordance with the laws which govern the Agreement.

SECTION 8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, each Loan Party has read this entire Amendment, and has caused its authorized representatives to execute this Amendment and has caused its corporate seal, if any, to be affixed hereto as of the date first written above.

IBM CREDIT LLC

By:________________________________

Print Name:________________________

Title:_____________________________

SUPPLIES DISTRIBUTORS, INC.

By:_____________________________________

Print Name:_____________________________

Title:__________________________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: __________________ as Managing Member

By:________________________________

Print Name:________________________

Title:_____________________________

PRIORITY FULFILLMENT SERVICES, INC.

By:_____________________________________

Print Name:_____________________________

Title:__________________________________

PFSWEB, INC.

By:_____________________________________

Print Name:_____________________________

Title:__________________________________

ATTACHMENT A ("ATTACHMENT A") TO AGREEMENT FOR INVENTORY FINANCING ("AGREEMENT") DATED MARCH 29, 2002

EFFECTIVE DATE OF THIS ATTACHMENT A: March 26, 2004

SECTION I. BORROWER/LOAN PARTIES:

(A) BORROWER: ORGANIZATION NO. (ASSIGNED BY STATE OF ORG).

Supplies Distributors, Inc.	3416326

(B) ADDITIONAL LOAN PARTIES:

Business Supplies Distributors Holdings, LLC	3410894
Priority Fulfillment Services, Inc.	2606094
PFSweb, Inc.	3062550

SECTION II. FEES, RATES AND REPAYMENT TERMS:

(A) Credit Line: (i) Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000) for the period from the date hereof until the Credit Reduction Date and (ii) on and after the Credit Reduction Date, the Credit Line shall be Twenty Two Million Five Hundred Thousand Dollars ($22,500,000). Notwithstanding the foregoing if on or after the Credit Reduction Date, IBM Credit sells a Participation to another financial institution pursuant to a Participation Agreement and sends a Participation Notice (including, without limitation, any Participation Notice sent on the Credit Reduction Date) to Borrower, then the Credit Line will be increased (effective as of the date set forth in the Participation Notice) by the amount set forth in Participation Notice (so long as the Participation Agreement remains in full force and effect) but in no event shall the Credit Line exceed Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000).

In the event that the amount of any Participation is reduced or any Participation Agreement expires or is terminated for any reason, the Credit Line shall be reduced, upon forty-five (45) days written notice by IBM Credit to Borrower, by an amount equal to the amount that is no longer subject to a Participation Agreement as determined by IBM Credit pursuant to Section 2.1 of the Agreement

(B) Borrowing Base:

(i) 100% of the Borrower's inventory in the Borrower's possession as of the date of determination as reflected in the Borrower's most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, so long as (1) IBM Credit has a first priority security interest in such Products; (2) such Products are in new and un-opened boxes, and (3) Borrower provides a detailed listing of inventory to IBM Credit and Authorized Supplier provides a quarterly evaluation of such inventory. The value to be assigned to such inventory shall be based upon the Authorized Supplier's evaluation of the inventory, acceptable to IBM Credit in its sole discretion,

(ii) 80% of price protection payments, credits, discounts, incentive payments, rebated and refunds relating to IBM Products ("Accounts") in the aggregate not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000.00) provided that (i) Borrower obtains (and provides to IBM Credit along with the monthly Collateral Management Report required under Section 7.1 (O)) from IBM written confirmation (a) acknowledging the obligation of IBM to pay such amount or that they have received the billing from the Borrower, (b) stating the date the amount is due to be paid and (c) IBM waiving its right to setoff such amounts owed to Borrower with any amount Borrower may owe to IBM, (ii) such Accounts do not remain unpaid for more than sixty (60) days from the date the obligation of IBM occurred; and (iii) such Accounts are delivered directly to IBM Credit.

(C) Product Financing Charge: Prime Rate plus 1.0%

(D) Product Financing Period: 90 days

(E) Collateral Insurance Amount: Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000.00)

(F) PRO Finance Charge: Prime Rate plus 1.0%

(G) Delinquency Fee Rate: Prime Rate plus 6.500%

(I) Free Financing Period Exclusion Fee: Product Advance multiplied by 0.25%

(J) Other Charges:

(i) Monthly Service Fee: $1,000.00

(ii) Annual Renewal Fee: $15,000.00

SECTION III. FINANCIAL COVENANTS:

(A) Definitions: The following terms shall have the following respective meanings in this Attachment. All amounts shall be determined in accordance with generally accepted accounting principles (GAAP).

"Consolidated Net Income" shall mean, for any period, the net income (or loss), after taxes, of Borrower on a consolidated basis for such period determined in accordance with GAAP.

"Current" shall mean within the ongoing twelve month period.

"Current Assets" shall mean assets that are cash, restricted cash applicable to cash received into a lockbox from collections of trade accounts receivable or expected to become cash within the ongoing twelve months.

"Current Liabilities" shall mean payment obligations resulting from past or current transactions that require settlement within the ongoing twelve month period. All indebtedness to IBM Credit and Congress shall be considered a Current Liability for purposes of determining compliance with the Financial Covenants. All subordinated indebtedness shall not be considered current liabilities.

"EBITDA" shall mean, for any period (determined on a consolidated basis in accordance with GAAP), (a) the Consolidated Net Income of Borrower for such period, plus (b) each of the following to the extent reflected as an expense in the determination of such Consolidated Net Income: (i) the Borrower's provisions for taxes based on income for such period; (ii) Interest Expense for such period; and (iii) depreciation and amortization of tangible and intangible assets of Borrower for such period.

"Fixed Charges" shall mean, for any period, an amount equal to the sum, without duplication, of the amounts for such as determined for the Borrower on a consolidated basis, of (i) scheduled repayments of principal of all Indebtedness (as reduced by repayments thereon previously made), (ii) Interest Expense, (iii) capital expenditures (iv) dividends, (v) leasehold improvement expenditures and (vi) all provisions for U.S. and non U.S. Federal, state and local taxes.

"Fixed Charge Coverage Ratio" shall mean the ratio as of the last day of any fiscal period of (i) EBITDA as of the last day of such fiscal period to (ii) Fixed Charges.

"Interest Expense" shall mean, for any period, the aggregate consolidated interest expense of Borrower during such period in respect of Indebtedness determined on a consolidated basis in accordance with GAAP, including, without limitation, amortization of original issue discount on any Indebtedness and of all fees payable in connection with the incurrence of such Indebtedness (to the extent included in interest expense), the interest portion of any deferred payment obligation and the interest component of any capital lease obligations.

"Long Term" shall mean beyond the ongoing twelve month period.

"Long Term Assets" shall mean assets that take longer than a year to be converted to cash. They are divided into four categories: tangible assets, investments, intangibles and other.

"Long Term Debt" shall mean payment obligations of indebtedness which mature more than twelve months from the date of determination, or mature within twelve months from such date but are renewable or extendible at the option of the debtor to a date more than twelve months from the date of determination.

"Net Profit after Tax" shall mean Revenue plus all other income, minus all costs, including applicable taxes.

"Revenue" shall mean the monetary expression of the aggregate of products or services transferred by an enterprise to its customers for which said customers have paid or are obligated to pay, plus other income as allowed.

"Subordinated Debt" shall mean Borrower's indebtedness to third parties as evidenced by an executed Notes Payable Subordination Agreement in favor of IBM Credit.

"Tangible Net Worth" shall mean Total Net Worth minus goodwill.

"Total Assets" shall mean the total of Current Assets and Long Term Assets. For the purpose of calculating Total Assets for Borrower, the accumulated earnings and foreign currency translation adjustments applicable to Borrower's Canadian and European subsidiaries are excluded.

"Total Liabilities" shall mean the Current Liabilities and Long Term Debt less Subordinated Debt, resulting from past or current transactions, that require settlement in the future.

"Total Net Worth" (the amount of owner's or stockholder's ownership in an enterprise) is equal to Total Assets minus Total Liabilities. For the purpose of calculating Total Net Worth of Borrower, following shall be excluded (i) accumulated earnings and foreign currency translation adjustments applicable to Borrower's Canadian and European subsidiaries and (ii) all income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP.

"Working Capital" shall mean Current Assets minus Current Liabilities.

(B) 1. Borrower will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis* (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 43.0:1.0

	* Annualized Revenue from intercompany sales are excluded from this calculation.	
(ii)	Net Profit after Tax to Revenue** **Excluding all income and losses applicable to (a) 100% ownership in Canadian and European subsidiaries and (b) foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and excluding revenue from intercompany sales.	Equal to or Greater than 0.20 percent
(iii)	Total Liabilities to Tangible Net Worth*** ***Accumulated earnings and foreign currency translation adjustments applicable to Borrower's Canadian and European subsidiaries are excluded from calculation of Borrower's Total Assets and Total Net Worth.	Greater than Zero and Equal to or Less than 7.0:1.0

2. Business Supplies Distributors Holdings, LLC will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 43.0:1.0
(ii)	Net Profit after Tax to Revenue* *Excluding all (a) income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and (b) revenue from intercompany sales.	Equal to or Greater than 0.15 percent
(iii)	Total Liabilities to Tangible Net Worth	Greater than Zero and Equal to or Less than 8.0:1.0

3. PFSweb, Inc. will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

Covenant	Covenant Requirement	As of Date
Minimum Tangible Net Worth	$18,000,000.00	03/31/03 and thereafter

EXHIBIT 10.2

AMENDMENT 4
TO
AMENDED AND RESTATEDPLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)

This Amendment 4 ("Amendment") dated March 29, 2004 is made to the AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING) by and among IBM BELGIUM FINANCIAL SERVICES S.A., with a registered number of R.C. Brussels 451.673 with an address of Avenue du Bourget 42, BE- 1130 Brussels VAT BE 424300467 ("IBM GF" or "US"), SUPPLIERS DISTRIBUTORS S.A. with a registered number of RC Liege 208795 with an address of Rue Louis Bleriot 5, B-4460 Grace-Hollogne, Belgium ("SDSA"), and BUSINESS SUPPLIES DISTRIBUTORS EUROPE BV a Netherlands company registered in Maastricht with a Netherlands trade registration number of HR Maastricht 14062763 with an address of Dalderhaag 13, 6136 Sittard, The Netherlands ("BSDE") (SDSA and BSDE collectively, "YOU"), PFS WEB B.V a Netherlands company registered in Maastricht under the number 17109541 with a Belgian trade registration number of R.C. Liege 204162 ("PFS WEB B.V.") (SDSA, BSDE and PFS Web B.V. collectively, the "LOAN PARTIES")

RECITALS:

A. The Loan Parties and IBM GF have entered into that certain AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING) dated as of March 29, 2002 (as amended and modified from time to time, the "Agreement");

B. The Loan Parties have requested and IBM GF has agreed to extend the Agreement for twelve months;

C. The Loan Parties agree to certain financial covenants revisions by IBM GF; and

D. The parties have agreed to modify the Agreement as more specifically set forth below, upon and subject to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, IBM GF and the Loan Parties hereby agree as follows:

SECTION 1. DEFINITIONS. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement.

SECTION 2. AMENDMENT. Subject to Section 4 hereof, the Agreement is hereby amended as follows:

A. The Agreement is hereby amended as follows:

(a) Section 1.1 is hereby amended by adding the following definition:

"TERMINATION DATE": means March 29, 2005 or such other date as to which IBM GF and the Loan Parties may agree from time to time.

(b) Section 8.2.7 is hereby amended by deleting it in its entirety and substituting, in lieu thereof, the following:

"FINANCIAL COVENANTS

You agree to comply with the Financial Covenants, if any, set out in the relevant supplements or the Schedule. You also agree that you will not, without our consent, make any of the following payments ("Restricted Payments") without our prior written consent (i) declare or pay any dividend (other than dividends payable solely in common stock of BSDE and/or SDSA and the aggregate amount of such dividends under this Agreement and the AIF does not cause you or Holdings to violate such Financial Covenants or exceed Eight Hundred Thousand Dollars ($800,000), without duplication, to be paid in fiscal year 2004 for which consent is hereby given) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of BSDE and/or SDSA or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of BSDE and/or SDSA ; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations)), except as permitted by the Amended and Restated Notes Payable Subordination Agreement.

(c) Section 10.1 is hereby amended by deleting it in its entirety and substituting, in lieu thereof, the following:

"This Agreement will remain in force until the Termination Date. However following the occurrence of an Event of Default that we have not waived in writing we may by notice with immediate effect terminate this Agreement. Upon any termination of this Agreement we shall have all the rights and remedies set out in Clause 9.2 until the complete discharge of all the Loan Parties' obligations to us. Any such termination shall not affect any right we have in relation to the IBM Reimbursables and IBM Receivables or the Receivables Rights and the Supplier Obligations and the Product Rights.

B. The Schedule to the Agreement is hereby amended by deleting such Schedule in its entirety and substituting, in lieu thereof, the Schedule attached hereto. Such new Schedule shall be effective as of the date specified in the new Schedule. The changes contained in the new Schedule include, without limitation, the following:

CREDIT LINE: (euro)12,500,000

VAT RECEIVABLES: Deleted from Collateral Valuation

PREPAYMENT PERCENTAGE: (i) 80% of Eligible IBM Reimbursables (1) and (ii) 80% or Eligible IBM Receivables

COLLATERAL VALUE OF STOCK-IN-TRADE: (A) 100% of paid for IBM Printing Systems Division inventory (other than (a) machines which IBM Printing Systems Division has declared obsolete at least 60 days prior to the date of determination and (b) service parts) which (i) we have purchased the associated Supplier Invoice from the Authorised Supplier on or after the Closing Date (ii) purchased directly from IBM prior to the Closing Date and not subject to retention of title, provided, however, we have a first priority security interest in such inventory, (iii) is repurchasable under a repurchase agreement with the Authorized Supplier and (iv) is secured and managed through a pledge with Disposition, with coverage percentage acceptable to us (such acceptable percentage to be determined by us within 60 days of the date this

Schedule is executed)The value to be assigned to such inventory shall be based upon the Supplier Invoice net of all applicable credit notes.

FINANCIAL COVENANT DEFINITIONS: Changed for net Profit After Tax, Revenue and Working Capital Turnover.

FINANCIAL COVENANTS

SDSA and BSDE will be required, on a consolidated basis, to maintain the following financial ratios, percentages and amounts on a year to date basis as of the last day of the fiscal period under review (quarterly and annually) by us and IBM Credit:

	Covenant	Covenant Requirement
(i)	Debt to Tangible Net Worth	Greater than Zero and Less than 7.0:1.0
(ii)	Net Profit after Tax to Revenue	Greater than 0.10 percent
(iii)	Working Capital Turnover (WCTO)	Greater than Zero and Less than 43.0:1.0

PFSweb, Inc. will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly and annually) by IBM Credit:

	Covenant	Covenant Requirement	Date as of
(i)	Minimum Tangible Net Worth	$18,000,000.00	03/31/04 and beyond

SECTION 3. CONDITIONS OF EFFECTIVENESS OF CONSENT AND AMENDMENT. This Amendment shall have been authorized, executed and delivered by each of the parties hereto and IBM GF shall have received a copy of a fully executed Amendment.

SECTION 4. REPRESENTATIONS AND WARRANTIES. Each Loan Party makes to IBM GF the following representations and warranties all of which are material and are made to induce IBM GF to enter into this Amendment.

SECTION 4.1 ACCURACY AND COMPLETENESS OF WARRANTIES AND REPRESENTATIONS. All representations made by the Loan Party in the Agreement were true and accurate and complete in every respect as of the date made, and, as amended by this Amendment, all representations made by the Loan Party in the Agreement are true, accurate and complete in every material respect as of the date hereof, and do not fail to disclose any material fact necessary to make representations not misleading.

SECTION 4.2 VIOLATION OF OTHER AGREEMENTS. The execution and delivery of this Amendment and the performance and observance of the covenants to be performed and observed hereunder do not violate or cause any Loan Party not to be in compliance with the terms of any agreement to which such Loan Party is a party.

SECTION 4.3 LITIGATION. Except as has been disclosed by the Loan Party to IBM GF in writing, there is no litigation, proceeding, investigation or labor dispute pending or threatened against any Loan Party, which, if adversely determined, would materially adversely affect the Loan Party's ability to perform such Loan Party's obligations under the Agreement and the other documents, instruments and agreements executed in connection therewith or pursuant hereto.

SECTION 4.4 ENFORCEABILITY OF AMENDMENT. This Amendment has been duly authorized, executed and delivered by each Loan Party and is enforceable against each Loan Party in accordance with its terms.

SECTION 5. RATIFICATION OF AGREEMENT. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Each Loan Party hereby ratifies, confirms and agrees that the Agreement, as amended hereby, represents a valid and enforceable obligation of such Loan Party, and is not subject to any claims, offsets or defenses.

SECTION 6. RATIFICATION OF GUARANTY. Each of Holdings, SDI, PFSweb and PFS hereby ratify and confirm their respective guaranties in favor of IBM GF and agree that such guaranties remain in full force and effect and that the term "Liabilities", as used therein include, without limitation the indebtedness liabilities and obligations of SDSA and BSDE under the Agreement as amended hereby. SDI hereby ratifies and confirms its Notes Payable Subordination Agreement executed by SDI on March 29, 2002 and confirms such Notes Payable Subordination Agreement remains in full force and effect.

SECTION 7. GOVERNING LAW. This Amendment shall be governed by and interpreted in accordance with the laws which govern the Agreement.

SECTION 8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, each Loan Party has read this entire Amendment, and has caused its authorized representatives to execute this Amendment and has caused its corporate seal, if any, to be affixed hereto as of the date first written above.

IBM BELGIUM FINANCIAL SERVICES S.A.	SUPPLIERS DISTRIBUTORS S.A.
By:________________________________	By:_____________________________________
Print Name:________________________	Print Name:_____________________________
Title:_____________________________	Title:__________________________________
BUSINESS SUPPLIES DISTRIBUTORS EUROPE BV	PFS WEB B.V.
By:________________________________	By:_____________________________________
Print Name:________________________	Print Name:_____________________________
Title:_____________________________	Title:__________________________________

THE FOLLOWING PARTIES AGREE TO SECTION 6 AS APPLICABLE TO THEM.

SUPPLIES DISTRIBUTORS, INC.	PRIORITY FULFILLMENT SERVICES, INC.
By:________________________________	By:_____________________________________
Print Name:________________________	Print Name:_____________________________
Title:_____________________________	Title:__________________________________

BUSINESS SUPPLIES DISTRIBUTORS
HOLDINGS, LLC

By:________________________________

Print Name:________________________

Title:_____________________________

EXHIBIT 10.3

IBM CREDIT LLC

THIRD AMENDED AND RESTATED
NOTES PAYABLE SUBORDINATION AGREEMENT

IBM CREDIT LLC
North Castle Drive
Armonk, NY 10504

Ladies and/or Gentlemen:

This Third Amended and Restated Notes Payable Subordination Agreement amends and restates in its entirety the Amended and Restated Notes Payable Subordination Agreement dated November 13, 2002 executed by Priority Fulfillment Services, Inc. ("PFS"). Supplies Distributors, Inc., with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("SDI"), is/may become further indebted to PFS. PFS represents that no part of said indebtedness has been assigned to or subordinated in favor of any other person, firm or corporation, other than pursuant to the Notes Payable Subordination Agreement, dated as of March 29, 2002 by and between PFS and Congress Financial Corporation (Southwest) ("Congress") ("Notes Payable Subordination Agreement") and that PFS does not hold any security therefor. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Financing Agreement referred to below.

To induce IBM Credit to continue financing SDI under the terms of the Agreement for Inventory Financing dated March 29, 2002 with SDI (as amended, modified, and supplemented from time to time, the "Financing Agreement") and in consideration of any loans, advances, payments, extensions or credit (including the extension or renewal, in whole or in part, of any antecedent or other debt), benefits or financial accommodations heretofore or hereafter made, granted or extended by IBM Credit or which IBM Credit has or will become obligated to make, grant or extend to or for the account of SDI whether under the Financing Agreement or otherwise, and in consideration of any obligations heretofore or hereafter incurred by SDI to IBM Credit, whether under the Financing Agreement or otherwise, PFS agrees to make the payment of the indebtedness referred to in the first paragraph hereof and any and all other present or future indebtedness of SDI to PFS together with any and all interest accrued thereon (collectively the "Secondary Obligations") subject and subordinate to the prior indefeasible payment in full of any and all debts, obligations and liabilities of SDI to IBM Credit, whether absolute or contingent, due or to become due, now existing or hereafter arising and whether direct or acquired by IBM Credit by transfer, assignment or otherwise (collectively the "Primary Obligations") and that SDI shall make no payments to PFS until the Primary Obligations have been indefeasibly paid in full as acknowledged in writing by IBM Credit. Notwithstanding the foregoing, SDI may make payments in respect of the Secondary Obligations provided that (i) no Default or Event of Default exists immediately prior to the payment of the Secondary Obligations and that no Default or Event of Default will occur after any payment in respect of the Secondary Obligations (ii) any such payment shall not cause the total amount of the Secondary Obligations to be less than Seven Million Dollars ($7,000,000), and (iii) such payment would be permitted under the Notes Payable Subordination Agreement. Except as provided above, PFS agrees not to ask, demand, sue for, take or receive payment or security for all or any part of the Secondary Obligations until and unless all of the Primary Obligations shall have been fully paid and discharged.

Upon any distribution of any assets of SDI whether by reason of sale, reorganization, liquidation, dissolution, arrangement, bankruptcy, receivership, assignment for the benefit of creditors, foreclosure or otherwise, IBM Credit shall be entitled to receive payment in full of the Primary Obligations prior to the payment of any part of the Secondary Obligations. To enable IBM Credit to enforce its rights hereunder in any such proceeding or upon the happening of any such event, IBM Credit or any person whom IBM Credit may from time to time designate is hereby irrevocably appointed attorney-in-fact for PFS with full power to act in the place and stead of PFS including the right to make, present, file and vote proofs of claim against SDI on account of all or any part of said Secondary Obligations as IBM Credit may deem advisable and to receive and collect any and all payments made thereon and to apply the same on account of the Primary Obligations. PFS will execute and deliver to such instruments as IBM Credit may require to enforce each of the Secondary Obligations, to effectuate said power of attorney and to effect collection of any and all dividends or other payments which may be made at any time on account thereof.

While this instrument remains in effect, PFS will not assign to or subordinate in favor of any other person, firm or corporation, (except for Congress subject to terms of the Intercreditor Agreement dated the date hereof between Congress and IBM Credit) any right, claim or interest in or to the Secondary Obligations or commence or join with any other creditor in commencing any bankruptcy, reorganization or insolvency proceeding against SDI. IBM Credit may at any time, in its discretion, renew or extend the time of payment of all or any portion of the Primary Obligations or waive or release any collateral which may be held therefor and IBM Credit may enter into such agreements with SDI as IBM Credit may deem desirable without notice to or further assent from PFS and without adversely affecting IBM Credit's rights hereunder in any manner whatsoever.

In furtherance of the foregoing and as collateral security for the payment and discharge in full of any and all of the Primary Obligations, PFS hereby transfers and assigns to IBM Credit the Secondary Obligations and all collateral security therefor to which PFS now is or may at any time be entitled and all rights under all guarantees thereof and agrees to deliver to IBM Credit endorsed in blank all notes or other instruments now or hereafter evidencing said Secondary Obligations. IBM Credit may file one or more financing statements concerning any security interest hereby created without the signature of PFS appearing thereon.

The within instrument is and shall be deemed to be a continuing subordination and shall be and remain in full force and effect until all Primary Obligations have been performed and paid in full and IBM Credit's commitment, if any, under the Financing Agreement has been terminated.

Dated March 29, 2004.

PRIORITY FULFILLMENT SERVICES, INC.

By:____
Name: Thomas J. Madden
Title: CFO
500 North Central Expressway
Plano, TX 75074

To: IBM Credit Corporation

SDI hereby acknowledge notice of the within and foregoing subordination and agree to be bound by all the terms, provisions and conditions thereof. SDI further agrees not to repay all or any part of the Secondary Obligations, or to issue any note or other instrument evidencing the same or to grant any collateral security therefor without IBM Credit's prior written consent.

SUPPLIES DISTRIBUTORS, INC.

By:____

Name: Joseph Farrell

Title: President / CEO

ACCEPTED:

IBM CREDIT LLC

By:

Name: Thomas Harahan

Title: Manager, Credit

ACKNOWLEDGMENT OF SUBORDINATION

____________________)
)SS
____________________)

On the ___th day of March, 2004, appeared before me ______________________ to me known to be the individual described in and who executed the foregoing instrument, and who acknowledged to me that the same was executed as his or her free and voluntary act for the uses and purposes therein set forth.

____
(Notary Public)

My Commission Expires:

_____________, _____

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of the 20th day of April, 2004 by and between CONGRESS FINANCIAL CORPORATION (SOUTHWEST), a Texas corporation ("Lender"), and SUPPLIES DISTRIBUTORS, INC., a Delaware corporation ("Borrower").

WHEREAS, Borrower and Lender are parties to that certain Loan and Security Agreement dated as of March 29, 2002 (as amended from time to time, the "Loan Agreement");

WHEREAS, Borrower and Lender desire to amend the Loan Agreement in the manner provided below;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I.
DEFINITIONS

Section 1.01. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meaning as in the Loan Agreement, as amended hereby.

ARTICLE II.
AMENDMENTS

Section 2.01. Amendment to Section 1 of the Loan Agreement. Effective as of the date hereof, the definitions of "Interest Rate" and "Revolving Loans Permanent Reserve" contained in Section 1 of the Loan Agreement are hereby amended and restated in their entirety to read as follows:

"`Interest Rate' shall mean,

(a) Subject to clause (b) of this definition below:

(i) as to Prime Rate Loans, a rate per annum equal to the sum of the "Applicable Prime Rate Margin" if the Excess Availability for the Borrower is at or within the amounts indicated for such percentage (set forth below), plus the Prime Rate,

(ii) as to Eurodollar Rate Loans, a rate per annum equal to the sum of the corresponding "Applicable Eurodollar Rate Margin" if the Excess Availability is at or within the amounts indicated from such percentage (set forth below), plus the Adjusted Eurodollar Rate (in each case, based on the Eurodollar Rate applicable for the Interest Period selected by Borrower, as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower).

Excess Availability	Applicable Prime Rate Margin	Applicable Eurodollar Rate Margin
$3,000,001 or more	0%	2.25%
$1,000,000 to $3,000,000	0%	2.50%
less than $1,000,000	.25%	2.75%

(b) Notwithstanding anything to the contrary contained in clause (a) of this definition, the Interest Rate shall mean the rate of two and one-quarter percent (2.25%) per annum in excess of the Prime Rate as to Prime Rate Loans and the rate of five percent (5.00%) per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans, at Lender's option, without notice, (i) either (A) for the period on and after the date of termination or non-renewal hereof until such time as all Obligations are indefeasibly paid and satisfied in full in immediately available funds, or (B) for the period from and after the date of the occurrence of any Event of Default, and for so long as such Event of Default is continuing as determined by Lender and (ii) on the Revolving Loans to at any time outstanding in excess of the amounts available to Borrower under Section 2 (whether or not such excess(es) arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default).

`Revolving Loans Permanent Reserve' shall mean the applicable amount during the corresponding time period as set forth below:

April 1, 2004 through and including April 30, 2004	$500,000
May, 2004 through and including May 31, 2004	$450,000
June 1, 2004 through and including June 30, 2004	$400,000
July 1, 2004 through and including July 31, 2004	$350,000
August 1, 2004 through and including August 31, 2004	$300,000
September 1, 2004 through and including September 30, 2004	$250,000

October 1, 2004 through and including October 31, 2004	$200,000
November 1, 2004 through and including November 30, 2004	$150,000
December 1, 2004 through and including December 31, 2004	$100,000
January 1, 2005 and thereafter	$ 0"

Section 2.02. Amendment to Section 3.3 of the Loan Agreement. Effective as of the date hereof, Section 3.3 of the Loan Agreement is hereby amended by deleting the amount "$2,000" contained therein and replacing such amount with "$1,000".

Section 2.03. "Amendment to Section 3.4 of the Loan Agreement. Effective as of the date hereof, Section 3.4 of the Loan Agreement is hereby amended by deleting the amount "$20,000,000" contained therein and replacing such amount with "$15,000,000".

Section 2.04. Amendment to Section 9.14 of the Loan Agreement. Effective as of the date hereof, Section 9.14 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"9.14 Net Worth

(a) Borrower shall maintain, as of the last day of each fiscal quarter, Net Worth of not less than zero.

(b) Borrower shall maintain, as of the last day of each fiscal quarter, a Modified Net Worth of not less than $1,100,000."

Section 2.05. Amendment to Section 12.1(a)(i) of the Loan Agreement. Effective as of the date hereof, Section 12.1(a)(i) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"(i) March 29, 2007, or"

Section 2.06. Amendment to Section 12.1(c) of the Loan Agreement. Effective as of the date hereof, Section 12.1(c) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"(c) If for any reason this Agreement is terminated prior to the end of the then current term or renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof, Borrower agrees to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

	Amount	Period
(1)	1.0% of Maximum Credit	From April 20, 2004 to and including March 29, 2005
(2)	0.5% of Maximum Credit	From March 30, 2005 to and including March 29, 2006
(3)	0.25 % of Maximum Credit	From March 30, 2006 and thereafter

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and Borrower agrees that it is reasonable under the circumstances currently existing. In addition, Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h) hereof, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to Borrower or permit the use of cash collateral under the United States Bankruptcy Code. The early termination fee provided for in this Section 12.1 shall be deemed included in the Obligations. Notwithstanding anything contained herein to the contrary, the early termination fee shall not apply to any early termination as the result of a complete refinancing of the Loans by First Union National Bank."

ARTICLE III.
NO WAIVER

Section 3.01. No Waiver. Nothing contained in this Amendment shall be construed as a waiver by Lender of any covenant or provision of the Loan Agreement, the other documents and agreements relating hereto or thereto (hereinafter individually referred to as a "Loan Document" and collectively referred to as the "Loan Documents"), this Amendment, or of any other contract or instrument between Borrower and Lender, and the failure of Lender at any time or times hereafter to require strict performance by Borrower of any provision thereof shall not waive, affect or diminish any right of Lender to thereafter demand strict compliance therewith. Lender hereby reserves all rights granted under the Loan Agreement, the other Loan Documents, this Amendment and any other contract or instrument between Borrower and Lender.

ARTICLE IV.
CONDITIONS PRECEDENT

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived by Lender:

(a) Lender shall have received, in form and substance satisfactory to Lender in its sole discretion, (i) this Amendment, duly executed by Borrower and each of the attached Consent, Ratification and Releases duly executed by the Guarantors, and (ii) such additional documents, instruments and information as Lender or its legal counsel may request;

(b) Borrower shall pay to Lender an amendment fee in the amount of $30,000, which shall be fully earned as of and payable on the date hereof;

(c) The representations and warranties contained herein, in the Loan Agreement, as amended hereby, and/or in the other Loan Documents shall be true and correct as of the date hereof as if made on the date hereof;

(d) No default shall have occurred under the Loan Agreement and be continuing and no default shall exist under the Loan Agreement unless such default has been specifically waived in writing by Lender; and

(e) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender and its legal counsel, Patton Boggs LLP.

ARTICLE V.
RATIFICATIONS, REPRESENTATIONS AND WARRANTIES

Section 5.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement are ratified and confirmed and shall continue in full force and effect.

Section 5.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that (i) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower, (ii) the representations and warranties contained in the Loan Agreement, as amended hereby, and any other Loan Document are true and correct on and as of the date hereof as though made on and as of the date hereof, (iii) Borrower is in full compliance with all covenants and agreements contained in the Loan Agreement, as amended hereby, and (iv) Borrower has not amended its Articles of Incorporation or Bylaws since March 29, 2002.

ARTICLE VI.
MISCELLANEOUS

Section 6.01. Survival of Representations and Warranties. All representations and warranties made in the Loan Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

Section 6.02. Reference to Loan Agreement. Each of the Loan Documents, including the Loan Agreement and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement as amended hereby, are hereby amended so that any reference in such Loan Documents to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.

Section 6.03. Expenses of Lender. As provided in the Loan Agreement, Borrower agrees to pay all reasonable costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including without limitation the reasonable costs and fees of Lender's legal counsel, and all reasonable costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Loan Agreement, as amended hereby, or any other Loan Document, including without limitation the reasonable costs and fees of Lender's legal counsel.

Section 6.04. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable. Furthermore, in lieu of each such invalid or unenforceable provision there shall be added automatically as a part of this Amendment a valid and enforceable provision that comes closest to expressing the intention of such invalid or unenforceable provision.

Section 6.05. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN DALLAS, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

Section 6.06. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

Section 6.07. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 6.08. Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant or condition of the Loan Agreement shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 6.09. Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.10. NO ORAL AGREEMENTS. THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 6.11. RELEASE. BORROWER HEREBY ACKNOWLEDGES THAT IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE "OBLIGATIONS" OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER. BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH THE BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Amendment has been duly executed by Borrower and Lender to be effective as of the date first above written.

LENDER:	BORROWER:
CONGRESS FINANCIAL CORPORATION (SOUTHWEST)	SUPPLIES DISTRIBUTORS, INC.,
By:________________________________	By:_____________________________________
Name:______________________________	Name:___________________________________
Title:_____________________________	Title:__________________________________
ADDRESS:	CHIEF EXECUTIVE OFFICE:
5001 LBJ Freeway, Suite 1050 Dallas, Texas 75244	500 North Central Expressway, 5th Floor Plano, Texas 75074

First Amendment to Loan and Security Agreement

CONSENT, RATIFICATION AND RELEASE

Each of the undersigned hereby consents to the terms of the within and foregoing Amendment, confirms and ratifies the terms of that certain Secured Guarantee dated March 29, 2002 and that certain General Security Agreement dated March 29, 2002 each as amended from time to time and as executed by the undersigned for the benefit of Lender (the "Guaranty Documents"), and acknowledges that the Guaranty Documents are in full force and effect and ratifies the same, that the undersigned has no defense, counterclaim, set-off or any other claim to diminish the undersigned's liability under such documents, that the undersigned's consent is not required to the effectiveness of the within and foregoing Amendment, and that no consent by the undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Obligations, the Collateral, or any of the other Loan Documents. THE UNDERSIGNED HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH THE UNDERSIGNED MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

PRIORITY FULFILLMENT SERVICES, INC.

By:_____________________________________
Name:___________________________________
Title:__________________________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By:_____________________________________
Name:___________________________________
Title:__________________________________

CONSENT, RATIFICATION AND RELEASE

The undersigned hereby consents to the terms of the within and foregoing Amendment, confirms and ratifies the terms of that certain Guarantee dated March 29, 2002 as amended from time to time and as executed by the undersigned for the benefit of Lender (the "Guaranty Documents"), and acknowledges that the Guaranty Documents are in full force and effect and ratifies the same, that the undersigned has no defense, counterclaim, set-off or any other claim to diminish the undersigned's liability under such documents, that the undersigned's consent is not required to the effectiveness of the within and foregoing Amendment, and that no consent by the undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Obligations, the Collateral, or any of the other Loan Documents. THE UNDERSIGNED HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH THE UNDERSIGNED MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

PFSWEB, INC.

By:_____________________________________
Name:___________________________________
Title:__________________________________

EXHIBIT 10.5

PFSweb, Inc.
500 North Central Expressway
Plano, TX 75074

[date]

[name of Executive]
c/o 500 North Central Expressway
Plano, TX 75074

Dear [name]:

This will confirm our agreement regarding that certain Executive Severance Agreement (the "Agreement") dated [date] between you (the "Executive") and PFSweb, Inc. (the "Company"). Effective as of the date hereof, the Agreement is hereby amended as follows:

The definition of "Qualifying Termination" is amended by adding the following thereto:

"In addition, a "Qualifying Termination" shall be deemed to occur if (a) the Executive shall serve as a member of the Board, and (i) upon the expiration of the Executive's term of office as such member, the Board (or any nominating committee of the Board) shall determine not to, or shall fail to, re-nominate the Executive to serve as a member of the Board (unless the Executive shall consent thereto) other than in connection with a Termination for Cause or (ii) in accordance with the Company's bylaws, the Board shall approve the removal of the Executive as a member of the Board, other than in connection with a Termination for Cause, or (b) the Board shall authorize and approve a material and adverse change in the Executive's position, title and office(unless the Executive shall consent thereto); provided, however, the foregoing shall not apply if the Executive shall serve as Chief Executive Officer and Chairman of the Board, and the Board shall determine that such Executive shall continue to serve as Chief Executive Officer and as a member of the Board, but shall not serve as Chairman, as the result of (i) any change in law, rule, regulation or listing standard of the primary securities exchange upon which the Company's common stock is then traded restricting or prohibiting the holding of both offices by one individual or requiring disclosure as to the reason why the Board believes the holding of both offices by one individual is appropriate or (ii) the public announcement by two or more of the leading providers of proxy voting and corporate governance services that they will recommend withholding votes or casting negative votes at annual shareholder meetings of companies whose offices of chief executive officer and chairman are held by the same individual."

Please acknowledge your agreement to the foregoing in the space provided below.

Very truly yours,

PFSweb, Inc.

By:

Name:
Title:

Agreed:

- -----------------------
Executive

EXHIBIT 31.1

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Mark Layton, certify that:

1. I have reviewed this report on Form 10-Q of PFSweb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 17, 2004

By: /s/ Mark C. Layton

Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATIONS OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Tom Madden, certify that:

1. I have reviewed this report on Form 10-Q of PFSweb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2004

By: /s/ Thomas J. Madden

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of PFSweb, Inc. (the “Company”), does hereby certify that:

The Quarterly Report on Form 10-Q for the period ended March 31, 2004 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-K.

May 17, 2004	/s/ Mark C. Layton Mark C. Layton Chief Executive Officer
May 17, 2004	/s/ Thomas J. Madden Thomas J. Madden Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to PFSweb, Inc. and will be retained by PFSweb, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.